LEAD CITY UNIVERSITY

Faculty of Social and Management Sciences
Department of Economics

COURSE PARTICULARS

Course Code:	ECO 412
Course Title:	Advanced Macroeconomics II
Number of Units:	2
Status:	Compulsory

LECTURERS DETAIL

Name:	(1)	Dr Campbell, O.A
Qualifications:		B.Sc (Econs), M.Ed., M.Sc & Ph.D (Econs)
Phone:		08033176177
Email:		omolaracampbell@yahoo.com
Area of Specialization:		Development Economics
Name:	(2)	Ojo, S. I.
Qualifications:		B.Sc, M.Sc & Ph.D (Econs)
Phone:		08166203377
Email:		greatsamsonojo@yahoo.co.uk
Area of Specialization:		Monetary Economics

COURSE DESCRIPTION

Introduction to theories of economic growth: Harrod –Domar, Solow and Neo – Classical Growth Models, income distribution; stabilization concept including lags in stabilization policies; fine – tuning of the economy and open macroeconomics.

COURSE OBJECTIVE

a. To examine the interaction among output, inflation and unemployment
b. To investigate the determinants of economic growth in the long run
c. To investigate how expectations affect some markets such as stock and goods market
d. To understand the influence of foreign economy on domestic economy

ASSESSMENT

Attendance - 10%
Class participation/Test - 20%
Examination - 70%
Total - 100%

TEACHING PLAN

Week	Topic
Week 1-2:	**Economic Growth Models.** • The Harrod – Domar Model of Growth • The Solow-Swam Model of Econs • The Steady State of the Economy • The Endogenous Growth Theory.
Week 3-4:	**Productivity, Output and Unemployment in the Short Run** • Aggregate Demand, Aggregate Supply. • Determination of Equilibrium Output • Implication of Expected Price on Output • Tutorials
Week 5-6:	**Inflation and Unemployment 1** • The Phillips Curve • The Inflation Process • Inflation Targeting & Unemployment • Tutorials
Week 7-8:	**Inflation and Unemployment 2** • Model of Inflation, Unemployment and Output • Output Growth and Unemployment (Supply Side)

	• Output Growth and Inflation (Demand Side) • Tutorials
Week 9-10:	**Expectations, Consumption and Investment** • Current Income, Expectations and Consumption. • Investment and Expectation of Profit • Current vs Expected Profit • The Volatility of Consumption and Investment • Tutorials
Week 11-12	**The Open Economy** • Openness in Goods Markets • Openness in Financial Markets • The IS Relation in an Open Economy • Equilibrium Output and the Trade Balance
Week 13-14	**Depreciation, Trade Balance and Output** • Exchange Rate, Fiscal and Monetary Policies in the General Equilibrium Framework • Tutorials
Week 15:	**Revision and Examinations.**

READING LISTS

1. Oliver Blanchard (2003) *Macroenomics* Third Edition. Prentice Hall, USA.
2. Jhingan M.L. (2008) *Macroeconomic* Theory 38th Revised Edition. Vrinda Publications Delhi.
3. Mckenna C and Rees R (1998) *Economics: A Mathematical Introduction: International Student Edition,* Oxford University press.

TUTORIAL QUESTIONS

1. Given that $Y = AK^{\frac{1}{3}}L^{\frac{2}{3}}$

   When saving rates and depreciation are 30% and 15% respectively

   a. Establish production function in its intensive form
   b. The capital stock at the steady state level
   c. Consumption, output and savings at the steady state
   d. Capital stock that ensure maximum consumption
   e. Confirm that the production function in the above equation satisfied Inada condition (1964)

2. (a) Assuming that the government observes that the economy is in a recession and so decides to introduce a budget deficit as a fiscal policy measure. With the appropriate graphical expression, trace the effect of this singular action of government on the economy in the medium run.

   (b) Explain the role of fiscal policy in developing countries

3. (a) Explain any two approaches to the implementation of compensatory fiscal policy

   (b) What are the merits and demerits of those two approaches?

4. (a) What do you understand by monetary policy? State and discuss two instruments of monetary policy that can be utilised to tackle the problem of unemployment in an economy. What are the limitations of these two instruments?

   (b) What are the factors responsible in the growth of public debt in Nigeria?

5. How would you explain the impact of a fall in oil price on the Nigerian economy?
   Is there any relationship between inflation, unemployment and output? Explain your response

6. Consider two countries with the same neoclassical production in intensive form

$$y = k^{\frac{2}{3}}$$

Each country's growth is described by the Solow-Swan growth model in continuous time and with no uncertainty

a. Suppose that there is no trade of any kind between the two countries. in country A, the savings rate is s = 0.20, the population growth rate is n = 0.10, and the rate of depreciation of capital is δ=0.10

   Find the steady-state competitive equilibrium values

b. Now consider Country B. It also faces s = 0.20 and δ=0.10. it has zero population growth, but labour augmenting technical progress at rate λ = 0.10

Find the steady-state competitive equilibrium values

c. Explain any five key assumption of Solow–Swan growth model

7. (a) Distinguish clearly between the three main types of discretionary fiscal policy
   (b) Discuss compensatory fiscal policy as a device for controlling cyclical fluctuations
   (c) How do automatic stabilizers affect the economy?

8. a. Define net exports and net capital outflow. Explain how and why they are related
   b. Explain the relationship among saving, investment and net capital outflow
   c. If a Japanese car costs 500,000 yen, a similar American car costs $10, 000, and a dollar can buy 100 yen, what is the nominal exchange rates?
   d. Do you favour flexible or fixed exchange rate? Give reasons in support of your answer

9. (a) Assume Nigeria's currency depreciates against the dollar, what effect this action will have on equilibrium output and Trade balance.
   (b) Explain the effect of lags in economic policy

10. (a) Carefully explain the following:
    (i) Under-valued currency
    (ii) Optimal valued currency
    (b) Advance arguments for and against a system of fixed exchange rate and flexible exchange rates

11. (a) Point out the similarities and differences in the Harrod and Domar Growth Models.
    (b) Identify the features of Solow Swan Model of economic growth with and without saving.

12 (a) Expose the submission of Arrow's 'Learning by Doing" and Romers "Learning by Investment" Models.
   (a) What do you understand as the "Golden Rules of Accumulation"? How does an economy attain this?